

TOPIC: UPDATE ON COST DRIVER STUDY, DEVELOPMENT OF NEW TUITION POLICIES, AND FUNDING ALLOCATION MODEL 2.0

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I. SUMMARY

In May, 2014, the General Assembly and Governor Hickenlooper, with the enactment of HB 14-1319, tasked the Colorado Commission on Higher Education (CCHE) with developing a new performance-based allocation model by January 15, 2015, for the State's operating funding for the public institutions of higher education. Furthermore, the legislation directed the CCHE to submit to the General Assembly by November 1, 2015, new tuition policies that ensure both accessible and affordable higher education for Colorado residents. The CCHE, the Governing Boards, and the Department delivered a completed, unanimously agreed upon funding allocation model to the General Assembly. The higher education budget, including the institutional funding allocations, is currently moving through the state budget process. As part of the implementation plan for HB 14-1319, the Department established a Cost Driver and Analysis Expert Team to provide the CCHE with a thoughtful analysis of what is driving costs of higher education in Colorado. This study is intended to inform the Commission's development of the statutorily required recommendations regarding tuition policies. This discussion item is intended to provide the Commission with an overview of the proposed tasks and timeline associated with the completion of the Cost Driver work, development of recommended tuition policies, and evaluation and refinement of the Funding Allocation Model version 2.0. In addition, staff intends to solicit feedback from the Commissioners regarding the proposed plan and timeline as well as initial expectations related to the development of CCHE recommended tuition policies.

II. BACKGROUND AND UPDATE

Cost Driver Analysis Team – In general terms, the charge to the expert team is to: (1) explain the costs and the cost drivers putting the costs of educating a student in the context of overall institutional expenditures; and (2) explain the financing of the costs, including tuition pricing and strategies, putting the state appropriations and tuition revenues in the context of overall institutional revenues.

Working with the National Center for Higher Education Management Systems (NCHEMS), this team's work is structured into two parts. Part 1 involves reviewing, and recommending any necessary improvements to the primary sources of cost information including the finance survey of the federal Integrated Postsecondary Education Data System (IPEDS), Annual Financial Reports (audited) of individual governing boards; and the Colorado College and University Budget Data Books. Part 2 involves an analysis conducted by NCHEMS to develop a "predictive" model of costs. The goal of this analysis is to develop "predicted" costs for each institution and to compare the "predicted" to the "actual" costs. The analysis uses IPEDS data to compare each Colorado institution to other similar institutions on a set of variables.

The expert team has met four times primarily focused on providing guidance and feedback to NCHEMS as NCHEMS conducts the work on two main deliverables:

1. A report that describes the principal cost drivers at different kinds of institutions in the state and the factors driving pricing decisions and strategies of the different kinds of institutions in the state.
2. A project to automate current hard copy data collections in a more useable data platform by fully automating the Budget Data Books. This will create a searchable database of actual and budgeted expenditure and revenue information. The importance of this deliverable was highlighted by Henry Sobanet, Director, Office of State Planning and Budget, when he met with the team.

CCHE Recommended Tuition Policies

Following the conclusion of its cost driver work, the Cost Driver Team will be tasked with working with Department staff on developing options for tuition policies. The cost driver report will inform CCHE as it works to develop tuition policies that balance ensuring affordable and accessible higher education while reflecting the reality of the cost drivers that institutions face.

Pursuant to HB 14-1319, by November 1, 2015, CCHE shall submit to the Legislature tuition policies that ensure both accessible and affordable higher education for residents.

- Tuition policies must also reflect:
 - Level of state funding needed for institutions
 - The need of each institution to enhance the quality of programs and offerings to strengthen their financial position
- Tuition policy recommendations must be developed in consultation with governing boards and interested parties using an inclusive and transparent process.

In addition to the statutory requirement, the Joint Budget Committee (JBC) adopted a *Request for Information* asking the Commission “to also address mandatory fees imposed on most or all students given that such fees significantly affect the accessibility and affordability of higher education.”

Tuition Setting Background

Governing boards determine the tuition for the institutions they govern—often within statutorily prescribed limits, such as the 6 percent tuition cap under the College Affordability Act (SB14-001). The Commission has responsibility to exercise oversight to ensure that educational quality and student access are maintained consistent with the role and mission of each institution.

- **2014-2016:** In 2014 the College Affordability Act (SB 14-001) was passed, providing an historic \$60 million (11 percent) increase for Colorado’s public institutions of higher education. Tied to this investment in operating dollars was a requirement that resident

tuition rate increases be capped at no more than 6 percent for FY 2014-15 and FY 2015-16. For FY 2015-2016, the JBC is recommending an additional 11 percent increase.

- **2011 to 2014:** In 2010 SB 10-003 was passed, creating a five-year window of tuition-setting flexibility for higher education governing boards in response to reduced state funding. This gave governing boards the authority to raise tuition rates for resident-undergraduate students up to 9 percent for five years, from FY 2011-12 through FY 2015-16. A mechanism was provided to allow for increases above 9 percent, by submitting a Financial Accountability Plan for the governing board and having it approved by CCHE.
- **Prior to 2011:** Prior to 2010-11 any restrictions on resident tuition rate increases were detailed in a footnote to the Long Bill. These limitations are summarized in the following chart.

Summary of Long Bill Footnotes					
	FY06-07	FY07-08*	FY08-09**	FY09-10***	FY10-11
Research Institutions - CU System, CSU System, UNC, CSM	2.5%	7.0%	9.5%	9.0%	9.0%
Four Year Institutions - ASC, FLC, MSC, MSCD, WSC	2.5%	5.0%	7.5%	9.0%	9.0%
Two Year Institutions - CCCS	2.5%	3.5%	5.5%	9.0%	9.0%
*Research and four year institutions were allowed to follow a revenue limitation in FY07-08 as opposed to a rate limit.					
**In addition, FY08-09 footnotes allowed governing boards to increase tuition by up to \$5 per credit hour above the specific rate limit provided this increase was approved at a student election.					
***The governor vetoed the tuition footnote in FY09-10 but recommended governing boards stay within their spending authority which was based on 9.0% rate increases.					

Student Fees Setting Background

Governing boards set student fees for the institution the Board governs. The CCHE has statutory responsibility to adopt fee policies concerning the collection and use of student fees by governing boards.

- **2011 to present:** HB 11-1301 moved control over institutional fee-setting to the individual governing boards. CCHE is authorized to establish fee policies based on institutional role and mission; however, the statute requires each governing board to adopt an institution plan for student fees. C.R.S. § 23-5-119.5 and CCHE Policy VI-C-3.01Section 23-1-105.5 C.R.S. requires publically funded institutions of higher education to have an institution fee plan on file with the department of Higher Education that describes its policies and procedures regarding student fees, including increases in mandatory fees and the addition of new fees. It specifies components that must be in each fee plan, requiring governing boards to collaborate with the student government organization at the applicable institution or campus and requires that the fees plans be

available to the public on the website. It also outlines costs for which governing board may impose fees.

- **Prior to 2011:** Through FY 2010-11, statute, CCHE policy, and General Assembly practice appropriated certain kinds of fees- but not others- through the Long Bill, also that certain kinds of fees be subject to a vote of the student body.

The Department and CCHE will continue to engage in an inclusive and collaborative process to discuss the development and implementation of tuition policies, and any necessary changes to current student fee policies. This will include the continued work of the expert group, investigation into best practices, future facilitated discussions with CEOs, CCHE discussion at future CCHE meetings and a retreat topic, and CCHE public hearing to seek input from the public.

Funding Allocation Model 2.0

HB 14-1319 requires that the Colorado Commission on Higher Education (CCHE) that the Higher education budget FY 2016-17, and each year thereafter, the November 1 budget request shall include:

- (a) A detailed description of the fee-for-service contract factors, metrics, and values assigned for each
- (b) Specific details for each institution on how the fee-for-service contract is applied, the level of funding requested for each factor and metric.

Looking ahead to the version 2.0, CDHE and CCHE will again engage in an inclusive and collaborative process to discuss the development and implementation of any needed modifications. This will include the reformation of the Funding Allocation Model Expert Team (FAMET). The first meeting of FAMET is tentatively scheduled for Wednesday, April 15, 2015. This team will meet monthly to discuss any proposed recommended changes to the current model. CCHE will again be the final decision making body for any recommended changes to the funding allocation model.

III. STAFF ANALYSIS

Below is a summary table of the proposed timeline and activities for the cost driver, tuition policies, and funding allocation model for 2016-2017.

Calendar for the Cost Driver/Tuition Policy and the Funding Allocation Model Review Process		
DATE	Cost Driver and Tuition Policies	FAMET 2.0
April 1		Establish the Funding Allocation Model Expert Team (FAMET) 2.0
April 10	CCHE Meeting - Update on Cost Driver Work and Development of Options for Tuition Policies	
April 15		First meeting of the FAMET 2.0: Establish review process; Detailed review of current model; Discuss initial items for model improvement
April 23	Tuition Discussion with CEOs	
April 29	Cost Driver Team: Complete Phase I Work: Cost data/information improvements and NCHEMS Predictive Model of Costs; Phase II: Review of Best Practices in State Tuition Policies;	
May 8	CCHE Meeting - Overview of Cost Driver Working Draft and Review of Best Practices for State Tuition Policies	
May 13		FAMET 2.0: Review of data needs, improvements and collection schedules; identification of key model modifications
May 27	Cost Driver Team: Develop Options for State Tuition Policies;- Respond to any suggestions from the CCHE	
June 4	CCHE Meeting - Public Hearing - State Tuition Policies Options	
June 10		FAMET 2.0: Continued discussion of modification recommendations
June 24	Cost Driver Team Final Meeting: Finalize Cost Driver Study and Tuition Policies Recommendations	
June 25	Meet with CEOs to solicit input on tuition policy recommendations	

Calendar for the Cost Driver/Tuition Policy and the Funding Allocation Model Review Process		
DATE	Cost Driver and Tuition Policies	FAMET 2.0
July 15		FAMET 2.0: Finalization of funding model modification recommendations
August 6-7	CCHE Board Retreat: state tuition policies topic	CCHE Board Retreat: funding model modification policy topic
August 19		FAMET 2.0: Review and discuss CCHE feedback on funding model modification recommendations
September 3	CCHE discuss options for state tuition policies	CCHE discuss funding model modifications
September 16		FAMET 2.0: Final meeting
September 23		<i>FAMET 2.0: If needed</i>
October 29	CCHE acts on state tuition policies recommendations	CCHE acts on funding model
November 1	DHE staff submit FY 2016-17 budget request with final CCHE tuition policies recommendations/report to General Assembly	DHE staff submit FY 2016-17 budget request with final funding model to General Assembly

IV. STAFF RECOMMENDATIONS

This item is informational. No Commission action is required.

STATUTORY AUTHORITY

CCHE Recommend State Tuition Policy Recommendations by November 1, 2015

23-18-306 (5) C.R.S

(5) THE GENERAL ASSEMBLY FINDS AND DECLARES THAT IT IS VITAL THAT COLORADO'S HIGHER EDUCATION SYSTEM IS ACCESSIBLE AND AFFORDABLE FOR ALL COLORADANS. THE INSTITUTIONS' TUITION POLICIES ARE AN IMPORTANT COMPONENT OF ENSURING BOTH THE AFFORDABILITY AND SUSTAINABILITY OF COLORADO'S HIGHER EDUCATION SYSTEM. WITH THE EXPIRATION OF TUITION POLICIES IMPLEMENTED PURSUANT TO RECENT

LEGISLATION, IT IS IMPERATIVE THAT THE COMMISSION AND THE GOVERNING BOARDS OF STATE INSTITUTIONS OF HIGHER EDUCATION, AS WELL AS OTHER INTERESTED PARTIES, WORK COOPERATIVELY TO STRUCTURE AN ONGOING TUITION POLICY FOR THE STATE. THEREFORE, BY NOVEMBER 1, 2015, THE COMMISSION SHALL SUBMIT TO THE JOINT BUDGET COMMITTEE AND TO THE EDUCATION COMMITTEES OF THE HOUSE OF REPRESENTATIVES AND THE SENATE TUITION POLICIES THAT ENSURE BOTH ACCESSIBLE AND AFFORDABLE HIGHER EDUCATION FOR COLORADO'S RESIDENTS. THE TUITION POLICIES MUST ALSO REFLECT THE LEVEL OF STATE FUNDING FOR INSTITUTIONS AND THE NEED OF EACH INSTITUTION TO ENHANCE THE QUALITY OF EDUCATIONAL PROGRAMS AND OFFERINGS AND STRENGTHEN THE FINANCIAL POSITION OF THE INSTITUTION. THE COMMISSION SHALL DEVELOP THE TUITION POLICY RECOMMENDATIONS IN CONSULTATION WITH THE GOVERNING BOARDS OF THE INSTITUTIONS AND OTHER INTERESTED PARTIES USING AN INCLUSIVE AND TRANSPARENT PROCESS.

Funding Allocation Model 2.0

23-18-306 (4) and 23-18-307 (3)C.R.S
23-18-306(4)

BECAUSE THE IMPLEMENTATION OF THIS PART 3 MAY HAVE UNANTICIPATED RESULTS, ON JULY 1, 2016, AND EACH JULY 1 THEREAFTER THROUGH JULY 1, 2020, THE COMMISSION SHALL SUBMIT A WRITTEN REPORT TO THE JOINT BUDGET COMMITTEE AND TO THE EDUCATION COMMITTEES OF THE HOUSE OF REPRESENTATIVES AND THE SENATE CONCERNING THE STATUS OF THE IMPLEMENTATION OF THIS PART 3, AND MAY RECOMMEND CHANGES TO THE PROVISIONS OF THIS PART 3.

23-18-307 (3)

FOR THE 2016-17 STATE FISCAL YEAR AND EACH FISCAL YEAR THEREAFTER, THE DEPARTMENT AND THE COMMISSION SHALL SUBMIT A BUDGET REQUEST BY NOVEMBER 1 OF EACH YEAR THAT INCLUDES: (a) A DETAILED DESCRIPTION OF THE FEE-FOR-SERVICE CONTRACT ROLE AND MISSION FUNDING FACTORS AND THE PERFORMANCE FUNDING METRICS AND THE VALUES ASSIGNED TO EACH FACTOR AND METRIC; AND (b) THE FEE-FOR-SERVICE CONTRACT PROVISIONS OF SECTION 23-18-303 AS APPLIED TO EACH INSTITUTION, INCLUDING DETAILS OF THE FUNDING REQUESTED FOR EACH INSTITUTION FOR EACH ROLE AND MISSION FUNDING FACTOR AND EACH PERFORMANCE FUNDING METRIC.